

## Message Text

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ACTION XMB-04

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FM AMEMBASSY LUSAKA

TO SECSTATE WASHDC IMMEDIATE 1915

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TAGS: EFIN, ZA

SUBJECT: EXIM LENDING POLICY

REF: STATE 175859, 158106; LUSAKA 1566

1. IN OUR CONTINUING CONVERSATIONS WITH GRZ OFFICIALS RE EXIM REQUIREMENT FOR GUARANTEE, FOLLOWING ARGUMENTS HAVE BEEN MADE AND APPEAR TO REFLECT VIEWS OF MINISTER OF PLANNING AND FINANCE CHIKWANDA (WHOM AMBASSADOR HAS A POSTPONED APPOINTMENT TO SEE AT NOON JULY 31) AS WELL AS OTHER KEY GRZ SPOKESMEN.

2. EXIM STATES AMOUNTS INVOLVED ARE NOT CONSIDERED SMALL (STATE 158106). WE AGREE BUT TO ZAMBIANS LOANS ARE RELATIVELY SMALL. US PURCHASES UNDER BOTH CREDITS TOTAL \$44.5 MILLION INVOLVING EXIM EXPOSURE OF \$27.5 MILLION. HOWEVER, ZAMBIAN OFFICIALS NOTE THAT JANUARY 1972 CREDITS TO NCCM (CREDIT #3595) AND RCM (CREDIT #3646) WERE GREATER IN AMOUNT OF EXPORT VALUE (\$50,271,000) AND THAT EXIM LOAN PARTICIPATION AMOUNTED TO \$22,622,000 WITH ADDITIONAL GUARANTEES OF \$15,811,000. YET IN REAL TERMS, 1972 CREDITS WERE FAR IN EXCESS OF CREDITS NOW UNDER CONSIDERATION IF EFFECTS OF INFLATION TAKEN INTO ACCOUNT. GRZ OFFICIALS UNCONVINCED THAT GUARANTEE SHOULD BE REQUIRED

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NOW WHEN EXIM DID NOT CONSIDER THIS NECESSARY IN 1972 WHEN

GRZ HAD 51 PERCENT INTEREST IN COMPANIES, AND CONTINUE TO BELIEVE REQUIREMENT IS EXPRESSION OF LACK OF CONFIDENCE IN ZAMBIAN MANAGEMENT.

3. GRZ OFFICIALS EXPRESS PUZZLEMENT OVER ISSUE OF "EFFECTIVE CONTROL". THEY NOTE GRZ TOOK 51 PERCENT OF RCM AND NCCM EFFECTIVE JANUARY 1, 1970. YET, BY IMPLICATION, MINING COMPANIES WERE STILL DEEMED TO BE INDEPENDENT OF GRZ CONTROL AS EVIDENCED BY ABSENCE OF GUARANTEE REQUIREMENT ON SUBSEQUENT LOANS. THEY ASK CANDIDLY WHAT WERE FACTORS WHICH CAUSED EXIM TO PERCEIVE THAT EFFECTIVE CONTROL HAD PASSED FROM MINING COMPANIES TO GRZ. AS EVIDENCE OF CONTINUED INDEPENDENCE OF MINING COMPANIES, THEY CITE:

(A) APART FROM SELECTION OF MANAGING DIRECTORS BY MAJORITY SHAREHOLDERS RATHER THAN MINORITY SHAREHOLDERS, AS IN PAST, ACTUAL MANAGERIAL DIRECTION AND OPERATION OF MINES UNCHANGED.

(B) COMPANIES CONTINUE TO EXERCISE INDEPENDENCE FROM GRZ IN TERMS OF ESTABLISHING CONDITIONS OF EMPLOYMENT AND SALARIES. THEY NOTE IN THIS REGARD THAT RECENTLY CONCLUDED MWANAKATWE COMMISSION WHICH HAD MANDATE TO BRING SALARIES OF PARASTATAL ORGANIZATION IN LINE WITH CIVIL SERVICE DID NOT INCLUDE SALARIES PAID IN MINING SECTORS. MOREOVER, GRZ HAD HEARD REQUEST OF MINES FOR INCREASED SALARIES FOR EXPATRIATES TO BE COMPETITIVE ON WORLD MARKET, HAS NOT DENIED REQUEST, RATHER HAS SAID LET'S TALK ABOUT IT WHEN CONTRACTS COME UP FOR RENEWAL IN NOVEMBER.

(C) ARTICLES OF ASSOCIATION, THEY REITERATE, CLEARLY PROTECT MINORITY INTERESTS BY NOT ALLOWING MAJORITY TO OVERRULE THEM. REPRESENTATIVES OF ANGLO AND AMAX HAVE PRIVATELY TOLD US THAT MANAGEMENT DECISIONS STILL MADE ON SOUND CORPORATE BASIS AND GRZ INFLUENCE, APART FROM DECISIONS ON COMPLIANCE WITH CIPEC AGREEMENTS, HAS NOT BEEN EXERTED IN COMPANY OPERATION.

(D) GIVEN DEPENDENCE OF ZAMBIAN ECONOMY ON MINING SECTOR FOR 95 PERCENT OF FOREIGN EXCHANGE AND 50 PERCENT OF GOVERNMENT REVENUES, PRIVATELY SOME GRZ OFFICIALS ARE SKEPTICAL ABOUT VALUE OF GRZ GUARANTEE, I.E., ABILITY OF GRZ TO HONOR OBLIGATION DIRECTLY INFLUENCED BY HEALTH OF MINING COMPANIES. IN A PRACTICAL SENSE THEY BELIEVE IT WOULD MAKE MORE SENSE FOR RCM AND NCCM LIMITED OFFICIAL USE

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TO GUARANTEE LOANS TO GRZ RATHER THAN VICE VERSA. IN THIS REGARD, MAKING GRZ OBLIGOR WOULD BE UNSATISFACTORY BECAUSE OF LENGTHY DELAY IN RENEGOTIATING LOAN AGREEMENT. COMMON REFRAIN IS THAT EQUIPMENT URGENTLY NEEDED NOW AND FURTHER DELAYS WILL HAVE DAMAGING EFFECT ON PROFITABILITY OF COMPANIES, THUS ULTIMATELY FORCING THEM INTO A GREATER SHORT-RUN DEBT POSITION THAN IS NECESSARY.

4. GRZ OFFICIALS CONCERNED ABOUT PRECEDENT. THEY ASK "WILL ALL FUTURE EXIM ACTIVITY WITH MINING COMPANIES REQUIRE GRZ GUARANTEE?" IF THIS IS THE CASE, COMPANY OFFICIALS FEAR INEVITABLE EROSION OF INDEPENDENCE THEY NOW FEEL BECAUSE REQUIREMENT WILL LEAD TO GREATER GRZ INVOLVEMENT IN MINING OPERATIONS.

5. FINALLY, THERE IS RESENTMENT OVER WHAT IS PERCEIVED AS EXIM DISTRUST OF FUTURE INFLUENCE OF GRZ. EXIM EMPHASIS ON "POTENTIAL" FOR EXERTING INFLUENCE ON FUTURE OPERATIONS RATHER THAN DEMONSTRATED PERFORMANCE AGAIN SEEN AS LACK OF CONFIDENCE AND LACK OF APPRECIATION OF ZAMBIA'S VERY CREDIBLE RECORD IN MEETING INTERNATIONAL OBLIGATIONS.  
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